



Medicaid Information Bulletin

January 2003



03 - 03 Hospital Services: Billing Observation Room Charges

The Uniform Billing Manual (UB-92) maintains a uniform standard data set and format which can be used by the health care community to transmit charge and claim information to responsible parties and third-party payers. Included in this data are Revenue Codes defined as a code which identifies a specific accommodation, ancillary service or billing calculation. Each code then has its own definition.

In many situations, audits of hospital records have been unable to locate the required documentation necessary to justify the reimbursement for observation rooms. Observation room codes should not be used in lieu of recovery room codes. Revenue codes 760, 761, 762, 769 are observation room codes and require documentation of the order for and need for observation.

The revenue codes 760 - 769 are defined in the Uniform Billing Instruction Manual as treatment/observation room. "Charges for the use of a treatment room; or for the room charge associated with outpatient observation services. Observation services are those services furnished by a hospital on the hospital's premises, including use of a bed and periodic monitoring by a hospital's nursing or other staff, which are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient. Such services are covered only when provided by the order of a physician or another individual authorized by State licensure law and hospital staff by laws to admit patients to the hospital or to order outpatient tests. The reason for observation must be stated in the orders for observation" (emphasis added). Further information is provided in the Utah Medicaid Provider Manual Hospital Services.

SECTION 2, page 6 reads in pertinent part:

Observation services are those services, including use of a bed and monitoring by hospital staff, furnished by physician order, which are reasonable and necessary to evaluate the outpatient's condition or determine the need for a possible admission to the hospital. These services are short-term, lasting less than 24 hours.

SECTION 2, page 9 reads in pertinent part:

Outpatient Hospital services are medically necessary diagnostic and therapeutic services or supplies that are ordered and supervised by a physician or other practitioner of the healing arts, and are appropriate for the adequate diagnosis or treatment of a client's illness. Outpatient hospital services include:

- Nursing services or other personnel services necessary to provide patient care;
- The use of hospital facilities, equipment, and supplies; and
- The technical portion of clinical laboratory and radiology services.

The fee paid for an outpatient hospital service incorporates utilization of these elements.

SECTION 2, page 17 reads in pertinent part:

Observation or treatment room services are limited to cases where time is needed for observation and evaluation to establish a diagnosis and/or the appropriateness of an inpatient admission. Use of observation status to submit ancillary charges associated with outpatient surgery, other outpatient diagnostic services or other outpatient stays for any reason is excluded from reimbursement.

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Attention should be given to the "units of service" reported on the claim representing the time in a recovery room or an observation room. Medicaid does not currently require reporting of units with these revenue codes. Payment is not currently based on the units of service reported. However, if reported, each "unit of service" should reflect a 15 minute time period. A second unit of service should reflect time between 15:01 and 29:59 minutes.

Providers need to be cautioned not to automatically modify bills to shift charges associated with observation rooms to other areas. All charges in each area must be accompanied by documentation supporting those charges in those areas. Changing charges associated with an observation room which is not properly ordered or documented to another area could lead to potential investigation of false claims. All charges must be supported by documentation justifying how and where they are charged. Charges associated with observation rooms which were delivered but not properly ordered or documented may not be chargeable to other areas. □

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